



Bureau of Insurance Statement Regarding Maine Community Health Options

March 1, 2018

In its January 11, 2018 statement, the Bureau of Insurance (“BOI”) reported on Community Health Options’ (“CHO”) results through November 2017. The BOI expressed concern with the level of CHO’s reported net losses and adverse variation to the Plan in November, advised of indications that this adverse variance to Plan would continue in December, and explained that the BOI would give this issue close attention.

As of September 30, 2017, CHO reported surplus of \$46.8 million which compares to \$38.6 million as of December 31, 2016. CHO reported a \$3.4 million loss for October which, after adjusting for the impact of the unexpected termination of Cost Sharing Reduction payments by CMS announced in October (a loss that was not due to adverse operating experience), yielded a result consistent with Plan. The reported \$6.1 million loss for November was \$4.6 million worse than plan (\$2.6 million worse than Plan net of the unpaid CSR reimbursement for November).

CHO preliminarily reported a \$5.6 million loss for December, which was \$3.2 million higher than the Plan’s expected \$2.4 million loss for the month (\$1.2 million worse than Plan net of the unpaid CSR reimbursement for December). After certain adjustments, which are still under review, December saw a \$3.9 million drop in surplus bringing surplus to \$33.7 million as of December 31, 2017.

In light of the significant adverse variance to Plan in November and December, the BOI asked CHO to analyze the principal drivers of 2017 results and consider whether those results implicated the credibility of the assumptions underlying CHO’s 2018 premium rates. If it were concluded that those assumptions were too optimistic, then it might be necessary to establish a premium deficiency reserve for 2018 business.

In mid-February, CHO’s independent actuaries provided the BOI with analyses of both issues and CHO has since provided supplemental information. As of this point, the principal driver of adverse 2017 results appears to be higher than forecast unit costs (amounts paid for specific medical services and pharmaceuticals) and CHO’s actuaries have preliminarily advised that a 2018 premium deficiency reserve appears to be unnecessary.

The BOI and its consulting actuaries are evaluating that material and the underlying data. Because of the novel issues presented, more time is needed to complete this analysis. Consequently, CHO has been granted an extension to file its annual statement by April 1, 2018, one month later than normal. It is important to take the time to better understand the reasons for CHO’s late-appearing 2017 adverse results, whether in fact those results may be offset to some extent by potential recoveries, and whether a 2018 premium deficiency reserve is necessary.

The BOI is comfortable that CHO has the assets to meet its obligations to members and their health care providers. The issues discussed above go to capital margin, CHO’s cushion for the unexpected, not its ability to pay known obligations. The BOI will report further in April.